



Vietnam

Compliance Risk Profile

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Summary

Vietnam is the 21st largest exporter and 21st largest importer in the world.¹ It is strategically located in the center of ASEAN, near major markets in Asia such as China, and has direct access to the South China Sea. It is estimated that \$3.5-5 trillion USD worth of global trade passes through the South China Sea every year.

While still considered areas of weakness, Vietnam has made some improvements in the rule of law, regulatory quality, government effectiveness, and bribery and corruption areas in recent years. Even with improvements, corruption remains a high-risk area for Vietnam due to its relatively inefficient government and weakness in the overall rule of law. The World Economic Forum's (WEF) Global Competitiveness Report² ranks Vietnam at 55 out of 137 countries analyzed for overall economic competitiveness but two of the top six problematic factors for doing business in Vietnam were listed as corruption (3rd), and policy instability (6th).²

Multi-national companies operating in Vietnam should have strong local internal controls in-place as well as periodic monitoring and independent auditing to ensure compliance with Customs and anti-corruption laws.

General Country Information

Vietnam has a total population of 93.6 million² with a demographic composition of 85% Kinh (Viet), 1.9% Tay, 1.8% Thai, 1.5% Muong, 1.5% Khmer Krom, and 8.3% Other¹. Vietnam has two cities, Hanoi and Ho Chi Minh City, with more than 1,000,000 inhabitants.¹ Most of the population (66%) lives in rural areas.¹ The official language is Vietnamese and is the language spoken by a majority of the population¹ Vietnam has a GDP of \$220.4 Billion USD (\$2,354 USD per capita)² and it encompasses about 322,698 sq. km of land.¹

Governance and Regulatory

Legislation

The State Securities Commission of Vietnam launched the first Vietnam Corporate Governance Code of Best Practices for Public Companies in August 2019.³ The Code includes best practices that go beyond the minimum legal requirements.³

Environment

The World Bank's 2019 Ease of Doing Business² Report (EDB Report) ranks Vietnam overall 69 out of 190 countries analyzed for regulations that are conducive in fostering business activities and those that constrain it.

The World Bank's 2017 Worldwide Governance Indicator (WGI)⁴ for Regulatory Quality (RQ), with -2.5 being weak and +2.5 being strong governance performance, gave Vietnam a score of -0.40 which resulted in a ranking of 131 out of 203 countries

analyzed. This represented a slight improvement from the 2008 score of -0.62 and a ranking of 142 (tied with Nepal) out of 201 countries that were analyzed. The RQ indicator “*Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development*”⁴.

The 2017 WGI Rule of Law (RL) indicator gave Vietnam a score of 0.07 which resulted in a ranking of 93 out of 209 countries analyzed. This represented a significant improvement from the 2008 score of -0.47 and a ranking of 129 out of 209 countries. The RL indicator “*Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence*”⁴.

The 2017 WGI Government Effectiveness (GE) indicator gave Vietnam a score of 0.00 which resulted in a ranking of 99 out of 209 countries analyzed. This represented an improvement in performance from the 2008 score of -0.21 and ranking of 110 out of 207 countries. The GE indicator “*Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies*”⁴.

Enforcement

There have been several securities law enforcement cases in 2019, including among others, administrative sanctions against investment funds, individuals, and a design and urban development consulting company.³

GCSG's country risk ranking tool analyzed eight independent factors to score the **governance and regulatory area compliance risk**⁵ level for Vietnam as **Moderate**.

Bribery and Corruption

Legislation

The major legislation regulating corruption within Vietnam is found within the 2015 Penal Code as amended by Law No.12/2017/QH14 (effective January 1, 2018).⁶ The Government Inspectorate, police and prosecutors have the authority to investigate corruption domestically.⁷ The new Penal Code includes several corruption offenses, including the giving and promising of bribes as well as the criminalization of bribery in the private sector. Criminal liability now applies to individuals working within corporations and other non-governmental organizations.⁷

Environment

Transparency International's 2018 Corruption Perceptions Index⁸, with zero being the most corrupt and 100 being the least corrupt, gave Vietnam a score of 33 which resulted in a ranking of 117 out of 180 countries surveyed. Trace International's 2018 Bribery Risk Matrix⁸, with 100 being the most corrupt and zero being the least corrupt, gave Vietnam a score of 61 which resulted in a ranking of 142 out of 200 countries surveyed. The 2017 WGI Control of Corruption indicator⁴, with -2.5 being weak and +2.5 being strong governance performance, gave Vietnam a score of -0.58 which resulted in a ranking of 151 out of 209 countries. While there was not an improvement in ranking there was a slight improvement in score from 2008 to 2017 (2008 score of -0.71 and a ranking of 149 out of 207 countries). The WGI Control of Corruption indicator “*Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests*”⁴.

The 2016 WEF Enabling Trade Report¹⁰ (WEF Trade Report) listed corruption at the border (3rd) as one of the top three most problematic factors for importing into Vietnam.

Enforcement

Communist Party General Secretary Nguyen Phu Trong has recently pushed for a crusade against corruption. Over recent years there have been some high-profile corruption cases in Vietnam including, but not limited to, a former politburo member, a state oil firm executive, and several officials and executives from PetroVietnam.

GCSG's country risk ranking tool analyzed four independent factors to score the **bribery and corruption area compliance risk**⁵ level for Vietnam as **High**.

Trade

Legislation

The Vietnam National Assembly updated the Customs law in 2014 and the import and export standards are set out under Law No. 54/2014/QH13.⁹ The Customs Department regulates import and export clearance in Vietnam.⁹ Prohibition or Suspension list exports require licensing by MOIT.⁹ Vietnam is a member of the WTO (2007) and ASEAN.¹⁰

Environment

Facilitation. The WEF Trade Report¹⁰ gave Vietnam an overall score of 4.26, with 5.97 being the best and 2.85 being the worst scoring country in the index. This ranks Vietnam 73rd out of 138 countries that were evaluated for trade facilitation performance. The 1st and 2nd most problematic factors for importing, noted in the WEF Trade Report, included burdensome import procedures and tariffs and non-tariff barriers. Identifying potential markets and buyers, technical requirements and standards abroad, and difficulties in meeting quality/quantity requirements of buyers were the top three most problematic factors for exporting from Vietnam. The EDB Report² ranks Vietnam 100 out of 190 countries for “trading across borders” which includes evaluating the time and cost to export and import.

In 2017, Vietnam exported \$220B and imported \$204B.¹ Its exports have grown at an annualized rate of 13.5% the last five years. Vietnam’s top export destinations were the USA, China, Japan, South Korea, and Germany¹ and its top exports were broadcasting equipment and telephones.¹ Vietnam’s two (2) major maritime ports are Da Nang Port and Saigon Port.¹¹

Compliance. While the US and EU have sanctions in place against individual persons and organizations throughout the world, neither has comprehensive country-level economic sanctions programs in place against Vietnam.¹² Vietnam is experiencing export growth from companies diversifying their supply chains along with increased issues related to falsification of country of origin (in order to avoid tariffs) for products transshipped from China through Vietnam for entry into the United States.^{13,14} Vietnam is a party to the BWC and CWC but is not a member of the multi-lateral export control regimes Nuclear Suppliers Group (NSG), Wassenaar Arrangement, Australia Group, or Missile Technology Control Regime (MTCR).¹⁵

Enforcement

The Vietnam Customs Department has been focusing on stopping and preventing the fraudulent mislabeling of foreign products as Vietnamese origin. One example was an import case of 2,000 electric rice cookers from China that were labeled as Vietnamese origin.³

GCSG’s country risk ranking tool analyzed five independent factors to score the **trade compliance area risk⁵** level for Vietnam as **Low**.

Financial

Legislation

The recently revised Penal Code includes an updated money laundering offense and penalties.¹⁶ Vietnam is a member of the Asia / Pacific Group on Money Laundering (APG)¹⁷.

Environment

Access to Finance. The WEF Trade Report¹⁰ gave Vietnam a score of 3.9 (1-7 best) and a ranking of 79 out of 136 economies for access to finance.

Financial Secrecy and Money-Laundering. The latest Financial Secrecy Index (FSI)¹⁸ did not review Vietnam. The 2019 International Narcotics Control Strategy Report¹⁹ (NCSR) lists Vietnam as a country of concern for money laundering activities. The NCSR report on Vietnam said, “Vietnam remains a predominantly cash-based economy...The banking system is still at risk for money laundering through false declarations, including fictitious investment transactions. Customs fraud and the over- and under-invoicing of exports and imports are common...”¹⁹

Enforcement

Vietnam prosecuted four individuals for money laundering charges in 2018.¹⁹ This was only their second money laundering prosecution.¹⁹ The NCSR believes Vietnam’s anti-money laundering (AML) laws are adequate but their enforcement of AML laws needs to improve.

GCSG’s country risk ranking tool analyzed two independent factors to score the **financial area compliance risk⁵** level for Vietnam as **Moderate**.

Country Risk Rating

GCSG’s country risk ranking tool analyzed 19 independent factors to score the **overall compliance risk⁵** for Vietnam at **5.0** (1-10 Highest). This score assigns an overall **Moderate** compliance risk level for multi-national businesses operating within and/or conducting cross-border trade with entities operating within Vietnam.

Note: GCSG’s proprietary third-party risk ranking tool (assesses risk at the entity level), and our due diligence reports can be used to further drill down on risks posed by your supply channel and sales channel third parties. Click [here](#) to learn more.

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